

Amara Raja Batteries

Performance Highlights

Y/E March (₹ cr)	3QFY16	3QFY15	% chg (yoy)	2QFY16	% chg (qoq)
Net Sales	1,225	1,060	15.6	1,158	5.8
EBITDA	229	173	32.0	199	15.1
EBITDA Margin (%)	18.7	16.3	240 bp	17.2	150 bp
Adj. PAT	136	102	33.1	123	11.1

Source: Company, Angel Research

Results ahead of estimates: Amara Raja Batteries Ltd (ARBL)'s 3QFY2016 results have come in ahead of our estimates, driven by a strong operating performance. On the expected lines, the company's top-line grew by a healthy 16% yoy to ₹1,225cr. The Automotive segment, forming about 55% of revenues, grew in double digits on back of market share gains in both the OEM as well as the replacement segment. The Industrial segment also reported a double-digit growth, led by the telecom sub-segment (telecom forms about 50% of the overall Industrial segment's revenues). Given soft lead prices and a better product mix, the company's margins improved by 240bp yoy to 18.7%, coming in higher than our estimate of 17.4%. The margins for the quarter are the highest ever in the last six years. Given the robust operating performance, the net profit at ₹136cr, came in ahead of our estimate of ₹126cr.

Outlook and Valuation: ARBL is likely to continue gaining market share in the automotive battery segment. The strategy followed by automotive OEMs of sourcing from multiple vendors as against having a single vendor is likely to benefit ARBL. Further, with the company's strengthening distribution network in the Western and Eastern markets, we expect replacement sales to grow in strong double digits, going forward. We also expect the Industrial segment growth to be in healthy double digits over FY2017-2018, given that the telecom players are resorting to aggressive network expansion, and also with ARBL entering tubular battery manufacturing. We expect ARBL to record a healthy top-line CAGR of 17% over FY2015 to FY2017. Also, given the softness in lead prices, margins are expected to remain at elevated levels. We expect ARBL to clock 24% earnings CAGR over the next two years. **We maintain our positive view on the stock and reiterate our Buy rating on the stock with a target price of ₹1,039 (based on 28x FY2017 earnings).**

Key financials (Standalone)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net Sales	3,452	4,230	4,790	5,748
% chg	16.7	22.5	13.2	20.0
Net Profit	371	418	516	634
% chg	25.5	12.6	23.4	22.9
EBITDA (%)	16.7	17.2	18.0	17.7
EPS (₹)	21.7	24.5	30.2	37.1
P/E (x)	39.7	35.3	28.6	23.2
P/BV (x)	10.8	8.7	6.9	5.6
RoE (%)	27.2	24.6	24.2	23.9
RoCE (%)	36.6	34.1	34.3	33.6
EV/Sales (x)	4.2	3.4	3.1	2.5
EV/EBITDA (x)	25.2	20.0	17.0	14.1

Source: Company, Angel Research; Note: CMP as of February 3, 2016

BUY

CMP	₹863
Target Price	₹1,039

Investment Period	12 Months
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Stock Info

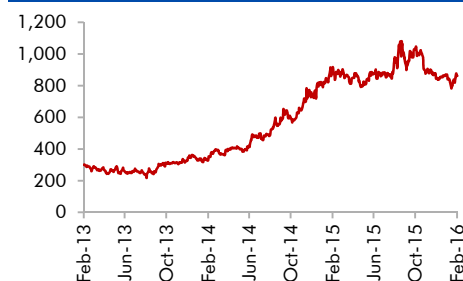
Sector	Auto Ancillary
Market Cap (₹ cr)	14,732
Net Debt (₹ cr)	(148)
Beta	0.9
52 Week High / Low	1,132/773
Avg. Daily Volume	35,585
Face Value (₹)	1
BSE Sensex	24,223
Nifty	7,362
Reuters Code	AMAR.BO
Bloomberg Code	AMRJ@IN

Shareholding Pattern (%)

Promoters	52.1
MF / Banks / Indian Fls	21.3
FII / NRIs / OCBs	12.1
Indian Public / Others	14.5

Abs. (%)	3m	1yr	3yr
Sensex	(8.9)	(16.5)	22.5
Amara Raja	(1.5)	(5.3)	186.5

3-year price chart



Source: Company, Angel Research

Bharat Gianani

022-3935 7800 Ext: 6817

bharat.gianani@angelbroking.com

Exhibit 1: Quarterly financial performance (Standalone)

Y/E March (₹ cr)	3QFY16	3QFY15	% chg (yoy)	2QFY16	% chg (qoq)	9MFY16	9MFY15	% chg (yoy)
Net Sales	1,225	1,060	15.6	1,158	5.8	3,521	3,149	11.8
Consumption of RM	754	696	8.4	742	1.7	2,231	2,086	7.0
(% of Sales)	61.6	65.7		64.0		63.4	66.2	
Staff Costs	62	49	24.8	58	6.5	176	145	21.5
(% of Sales)	5.0	4.7		5.0		5.0	4.6	
Other Expenses	180	141	27.7	160	12.9	488	390	25.2
(% of Sales)	14.7	13.3		13.8		13.9	12.4	
Total Expenditure	997	886	12.4	960	3.8	2,895	2,620	10.5
Operating Profit	229	173	32.0	199	15.1	626	529	18.4
OPM (%)	18.7	16.3		17.2		17.8	16.8	
Interest	0	0	466.7	0	750.0	0	0	266.7
Depreciation	36	29	23.4	34	3.6	103	96	6.5
Other Income	11	12	(2.5)	12	(2.8)	36	28	26.5
PBT (incl. Extr. Items)	204	156	30.9	176	15.9	559	461	21.4
(% of Sales)	16.7	14.7		15.2		15.9	14.6	
Provision for Taxation	68	54	26.8	53	27.0	178	152	26.5
(% of PBT)	33.3	34.4		30.4		31.9	33.0	
Exceptional items	-	-		-		-	-	
Reported PAT	136	102	33.1	123	11.1	381	309	23.4
Adj PAT	136	102	33.1	123	11.1	381	309	23.4
Adj. PATM	11.1	9.7		10.6		10.8	9.8	
Equity capital (cr)	17.1	17.1		17.1		17.1	17.1	
Reported EPS (₹)	8.0	6.0	33.1	7.2	11.1	22.3	18.1	23.4

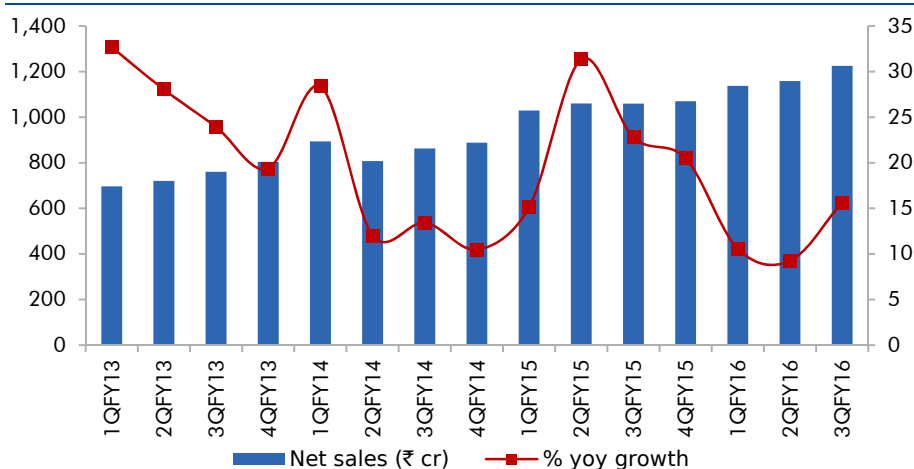
Source: Company, Angel Research

Exhibit 2: 3QFY2016 – Actual vs Angel estimates

Y/E March (₹ cr)	Actual	Estimates	Variation (%)
Net Sales	1,225	1,216	0.8
EBITDA	229	212	7.9
EBITDA margin (%)	18.7	17.4	130 bp
Adj. PAT	136	126	8.4

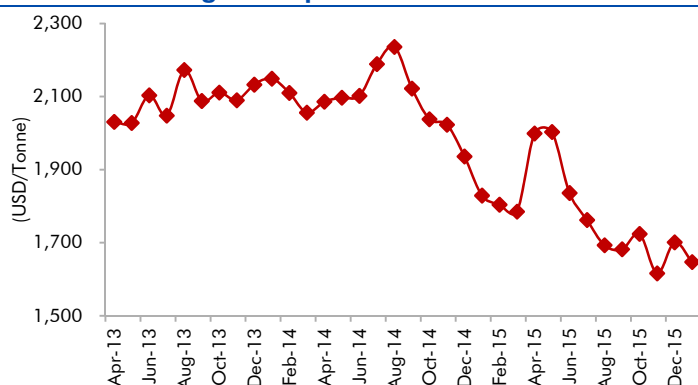
Source: Company, Angel Research

Top-line maintains double-digit growth: ARBL maintained its healthy double-digit revenue growth momentum, reporting a 16% yoy growth in 3QFY2016. The company continued to gain market share in the automotive segment which contributes by ~55% of the top-line. Increased supplies to OEM customers and increased penetration in the after-market space enabled the company to gain market share in both the OEM and the replacement segments. The Industrial segment (contributing ~45% of revenues) also grew in double digits led by the telecom sub-segment (telecom forms 50% of the company's Industrial division's revenues). In 9MFY2016, the company's revenues have grown by 12% yoy to ₹3,521cr.

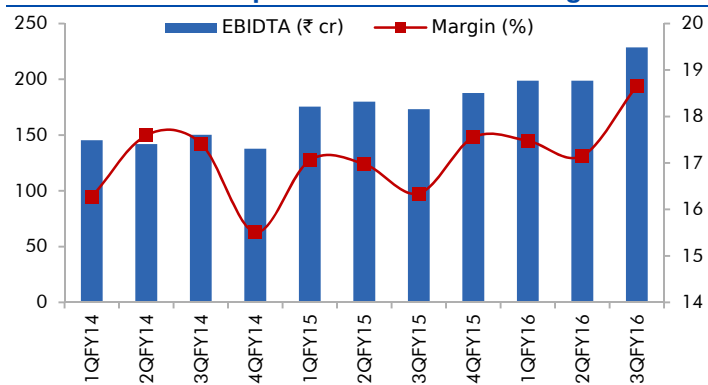
Exhibit 3: Double digit top-line growth continues


Source: Company, Angel Research

Soft lead prices and a better product mix boost operating performance: In 3QFY2016, ARBL posted a record margin of 18.7%. The margins are the highest in a quarter in the last six years. The operating margins improved 240bp yoy and 150bp on a sequential basis. Soft lead prices coupled with a better product mix (higher sales in automotive after-market segment) boosted the operating margins. Raw material cost as a percentage of sales dipped 410bp yoy to 61.6%, given the softness in the price of lead, which is its key raw material.

Exhibit 4: Average lead price trend


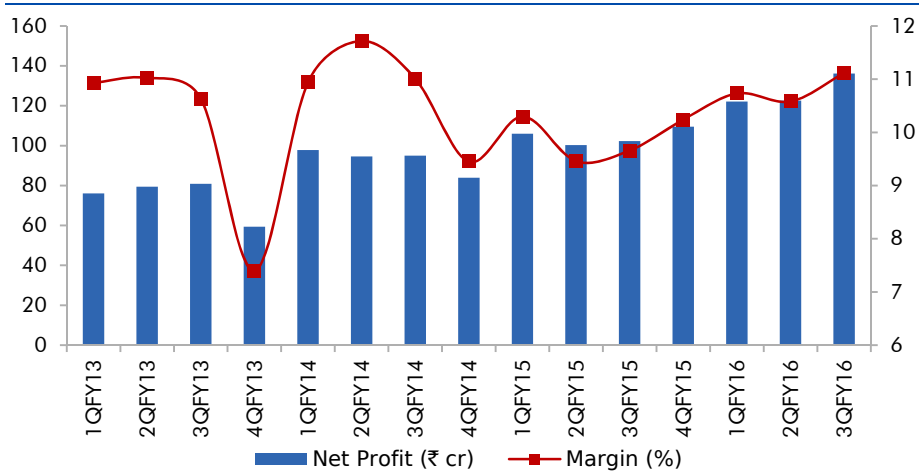
Source: Company, Angel Research

Exhibit 5: Soft lead prices boost EBITDA margin


Source: Company, Angel Research

Net profit grows strongly on back of healthy top-line growth and margin improvement: ARBL's adjusted net profit for the quarter was ahead of our estimate given the strong operating performance. The net profit grew strongly by 33% yoy to ₹136cr, beating our estimate of ₹126cr.

Exhibit 6: Strong bottom-line growth



Source: Company, Angel Research

Investment arguments

- **Demand scenario for automotive and industrial batteries to remain positive in the long run:** We expect growth traction in the automotive battery segment to continue over the next two years. The automotive OEM segment is likely to witness strong growth over the next two years on back of higher income levels, subdued fuel prices and further easing of interest rates. Also, robust automotive replacement demand is likely to maintain growth momentum. Further, given the economic recovery, the industrial segment (railways, UPS and telecom) is also poised to register double-digit growth over the next two years.
- **Likely to outpace industry growth on increased sourcing by automotive OEM segment:** ARBL has outpaced the battery industry over the last four to five years. Penetration into the new automotive OEM segment has led to market share gains for ARBL. OEM customers both in the 4W and 2W segments have strategically opted to source from ARBL in order to follow multiple sourcing and reduce dependence on a single supplier. Also, by strengthening its distribution reach in the Eastern and Western markets, ARBL is likely to gain market share in the automotive replacement segment as well. We believe ARBL would continue to gain market share in the near term and expect it to post a top-line CAGR of 17% over FY2015-2017.

Outlook and valuation

ARBL is likely to continue gaining market share in the automotive battery segment. The strategy followed by automotive OEMs of sourcing from multiple vendors as against having a single vendor is likely to benefit ARBL. Further, with the company's strengthening distribution network in the Western and Eastern markets, we expect replacement sales to grow in strong double digits, going forward. We also expect the Industrial segment growth to be in healthy double digits over FY2017-2018, given that the telecom players are resorting to aggressive network expansion, and also with ARBL entering tubular battery manufacturing. We expect ARBL to record a healthy top-line CAGR of 17% over FY2015 to FY2017. Also, given the softness in lead prices, margins are expected to remain at elevated levels. We expect ARBL to clock 24% earnings CAGR over the next two years. **We maintain our positive view on the stock and reiterate our Buy rating on the stock with a target price of ₹1,039 (based on 28x FY2017 earnings).**

Company background

Amara Raja Batteries Ltd (ARBL) is a leading automobile and industrial battery manufacturer in India. It is the second largest lead acid battery manufacturer having a market share of about 35% in the organized battery industry. ARBL has a technological tie-up with US based Johnson Controls, which also holds 26% stake in it. The Automotive and Industrial battery segments each accounted for ~50% of the company's total revenue in FY2015.

Profit and loss statement (Standalone)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Total operating income	2,375	2,959	3,452	4,230	4,790	5,748
% chg	34.4	24.6	16.7	22.5	13.2	20.0
Total expenditure	2,017	2,508	2,876	3,502	3,928	4,732
Net raw material costs	1,598	1,991	2,283	2,776	3,042	3,696
Employee expenses	100	126	158	195	238	278
Other expenses	319	390	435	531	648	758
EBITDA	357	451	575	728	862	1,016
% chg	38.4	26.1	27.6	26.5	18.5	17.7
(% of total op. income)	15.1	15.2	16.7	17.2	18.0	17.7
Depreciation & amort.	46	66	65	134	153	176
EBIT	323	431	541	617	759	920
% chg	45.4	33.7	25.5	14.1	23.0	21.1
(% of total op. income)	13.6	14.6	15.7	14.6	15.9	16.0
Interest and other charges	4	0	1	0	1	1
Other income	12	47	30	24	50	80
Recurring PBT	319	431	541	617	759	919
% chg	44.5	35.3	25.4	14.2	22.9	21.1
Extraordinary items	-	(9)	(4)	(7)		
PBT (reported)	319	422	537	610	759	919
Tax	104	135	169	199	243	285
(% of PBT)	32.5	31.4	31.3	32.2	32.0	31.0
PAT (reported)	215	287	367	411	516	634
ADJ. PAT	215	296	371	418	516	634
% chg	45.7	37.6	25.5	12.6	23.4	22.9
(% of total op. income)	9.1	10.0	10.8	9.9	10.8	11.0
Adj. EPS (₹)	12.6	17.3	21.7	24.5	30.2	37.1
% chg	45.7	37.6	25.5	12.6	23.4	22.9

Balance sheet statement (Standalone)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS						
Equity share capital	17	17	17	17	17	17
Reserves & surplus	806	1,043	1,346	1,682	2,111	2,637
Shareholders' Funds	823	1,060	1,363	1,700	2,128	2,654
Total loans	84	87	84	74	50	50
Deferred tax liability	22	20	30	37	37	37
Other long term liabilities	-	-	-	-	-	-
Total Liabilities	930	1,166	1,477	1,811	2,215	2,741
APPLICATION OF FUNDS						
Gross block	621	680	996	1,441	2,041	2,341
Less: Acc. depreciation	267	321	372	497	650	826
Net Block	355	359	623	944	1,391	1,516
Capital work-in-progress	32	103	145	86	100	100
Investments	16	16	16	16	22	25
Other noncurrent assets	0	0	0	0	0	0
Current assets	949	1,292	1,199	1,341	1,376	1,910
Cash	229	411	295	222	139	419
Loans & advances	131	201	113	140	157	188
Other	589	680	792	980	1,080	1,302
Current liabilities	422	604	506	578	674	809
Net current assets	527	688	693	764	701	1,100
Total Assets	930	1,166	1,477	1,811	2,215	2,741

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	319	422	537	610	759	919
Depreciation	43	55	51	125	153	176
Change in working capital	55	21	(121)	(143)	(20)	(119)
Others	2	(2)	11	5	-	-
Direct taxes paid	(104)	(135)	(169)	(199)	(243)	(285)
Cash Flow from Operations	314	360	308	397	649	691
(Inc.)/Dec. in fixed assets	(76)	(130)	(357)	(388)	(614)	(300)
(Inc.)/Dec. in investments	(0)	-	-	-	(6)	(3)
Cash Flow from Investing	(76)	(130)	(357)	(388)	(620)	(303)
Issue of equity	-	-	-	-	-	-
Inc./(Dec.) in loans	(11)	3	(3)	(10)	(24)	-
Dividend paid (Incl. Tax)	(38)	(50)	(65)	(72)	(88)	(108)
Others	0	0	(0)	(0)	-	-
Cash Flow from Financing	(48)	(47)	(68)	(82)	(112)	(108)
Inc./(Dec.) in cash	189	182	(117)	(72)	(83)	280
Opening Cash balances	40	229	412	295	222	140
Closing Cash balances	229	412	295	222	140	419

Key ratios

Y/E March	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)						
P/E (on FDEPS)	68.6	49.8	39.7	35.3	28.6	23.2
P/CEPS	56.4	40.7	33.8	26.7	22.0	18.2
P/BV	17.9	13.9	10.8	8.7	6.9	5.6
Dividend yield (%)	0.2	0.3	0.4	0.4	0.6	0.7
EV/Sales	6.1	4.9	4.2	3.4	3.1	2.5
EV/EBITDA	40.8	31.9	25.2	20.0	17.0	14.1
EV / Total Assets	15.7	12.3	9.8	8.1	6.6	5.2
Per Share Data (₹)						
EPS (Basic)	12.6	17.3	21.7	24.5	30.2	37.1
EPS (fully diluted)	12.6	17.3	21.7	24.5	30.2	37.1
Cash EPS	15.3	21.2	25.5	32.3	39.2	47.4
DPS	1.9	2.5	3.2	3.6	5.1	6.3
Book Value	48.2	62.0	79.8	99.5	124.6	155.4
Returns (%)						
ROCE (Pre-tax)	34.7	37.0	36.6	34.1	34.3	33.6
Angel ROIC (Pre-tax)	46.1	57.1	45.8	38.9	36.6	39.6
ROE	26.1	27.9	27.2	24.6	24.2	23.9
Turnover ratios (x)						
Asset Turnover (Gross Block)	3.8	4.3	3.5	2.9	2.3	2.5
Inventory / Sales (days)	41.0	36.1	35.4	36.1	34.9	35.4
Receivables (days)	49.1	47.0	47.9	47.8	46.8	46.8
Payables (days)	64.9	74.5	53.5	49.8	51.4	51.4
WC cycle (ex-cash) (days)	45.8	34.2	42.1	46.7	42.8	43.2
Solvency ratios (x)						
Net debt to equity	(0.2)	(0.3)	(0.2)	(0.1)	(0.0)	(0.1)
Net debt to EBITDA	(0.4)	(0.7)	(0.4)	(0.2)	(0.1)	(0.4)
Interest Coverage (EBIT / Int.)	80.5	1603.1	753.9	2572.4	949.2	920.0

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

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Disclosure of Interest Statement

Amara Raja Batteries

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)